

PRO FORMA ANALYSIS

Cedar and Kettner Development Options

County of San Diego

Keyser Marston Associates, Inc.

January 11, 2012

TABLE 1

PROJECT DESCRIPTION
CEDAR AND KETTNER - DEVELOPMENT OPTIONS
COUNTY OF SAN DIEGO

	Project			Build Alternative #1			Build Alternative #2		
I. Site Area	1.21 Acres	52,526 SF		1.21 Acres	52,526 SF		1.21 Acres	52,526 SF	
II. Product Type									
A. Construction Type	Type I			Type V above Type I Garage			Type V above Type I Garage		
B. Number of Stories	19 Stories (above-grade)			6 Stories (above-grade)			6 Stories (above-grade)		
C. Residential Density	158 Units/Acre			54 Units/Acre			54 Units/Acre		
D. Floor Area Ratio (FAR) ⁽¹⁾	5.06			2.13			2.15		
III. Gross Building Area									
A. Retail									
Leasable Retail Space	11,100 SF	100%		16,200 SF	100%		9,150 SF	100%	
Circulation/Common Area	0 SF	0%		0 SF	0%		0 SF	0%	
Subtotal Retail	11,100 SF	100%		16,200 SF	100%		9,150 SF	100%	
B. Office									
Leasable Office Space	0 SF	0%		0 SF	0%		6,930 SF	62%	
Circulation/Common Area	0 SF	0%		0 SF	0%		4,320 SF	38%	
Subtotal Office	0 SF	0%		0 SF	0%		11,250 SF	100%	
C. Residential									
Leasable Residential Area	191,459 SF	75%		60,330 SF	63%		68,110 SF	74%	
Circulation/Common Area	63,072 SF	25%		35,280 SF	37%		24,270 SF	26%	
Subtotal Residential	254,530 SF	100%		95,610 SF	100%		92,380 SF	100%	
D. Total Gross Building Area (GBA)	265,630 SF			111,810 SF			112,780 SF		
IV. Unit Mix									
	<u># of Units</u>	<u>Unit Mix</u>	<u>Unit SF</u>	<u># of Units</u>	<u>Unit Mix</u>	<u>Unit SF</u>	<u># of Units</u>	<u>Unit Mix</u>	<u>Unit SF</u>
One-Bedroom Units	108 Units	57%	792 SF	23 Units	35%	827 SF	35 Units	54%	866 SF
Two-Bedroom Units	72 Units	38%	1,222 SF	37 Units	57%	930 SF	30 Units	46%	1,260 SF
Three-Bedroom Units	10 Units	5%	1,788 SF	5 Units	8%	1,380 SF	0 Units	0%	0 SF
Total Number of Units	190 Units	100%	1,007 SF	65 Units	100%	928 SF	65 Units	100%	1,048 SF
VI. Parking									
A. Type of Parking									
On-Street	0 Spaces			0 Spaces			0 Spaces		
Above-grade	0 Spaces			0 Spaces			7 Spaces		
Below-grade	233 Spaces			89 Spaces			80 Spaces		
Total Parking Spaces	233 Spaces			89 Spaces			87 Spaces		
B. Parking by Use									
Retail	0 Spaces	0.0 /1,000 SF GBA		0 Spaces	0.0 /1,000 SF GBA		0 Spaces	0.0 /1,000 SF GBA	
Office	0 Spaces	0.0 /1,000 SF GBA		0 Spaces	0.0 /1,000 SF GBA		7 Spaces	1.0 /1,000 SF GBA	
Residential	243 Spaces	1.3 /Unit		89 Spaces	1.3 /Unit		80 Spaces	1.2 /Unit	
Total Parking Spaces	243 Spaces			89 Spaces			87 Spaces		

(1) The Phase 1 parking garage component is not included in KMA's calculation of FAR; therefore this figure differs from the FAR shown in the EIR. When the Phase 1 and Phase 2 components are combined, the FAR for the entire site is greater than the minimum FAR required by zoning.

TABLE 2

DEVELOPMENT COSTS
CEDAR AND KETTNER - DEVELOPMENT OPTIONS
COUNTY OF SAN DIEGO

	Project			Build Alternative #1			Build Alternative #2		
	Totals	Per Unit	Notes	Totals	Per Unit	Notes	Totals	Per Unit	Notes
I. Direct Costs									
Off-Site Improvements (1)	\$0	\$0	\$0 Per SF Site Area	\$0	\$0	\$0 Per SF Site Area	\$0	\$0	\$0 Per SF Site Area
On-Site Improvements/Landscaping	\$263,000	\$1,384	\$5 Per SF Site Area	\$263,000	\$4,046	\$5 Per SF Site Area	\$263,000	\$4,046	\$5 Per SF Site Area
Parking - Street	\$0	\$0	Included above	\$0	\$0	Included above	\$0	\$0	Included above
Parking - Above-grade	\$0	\$0	\$0 Per Space - Ground Level	\$0	\$0	\$0 Per Space - Ground Level	\$175,000	\$2,692	\$25,000 Per Space - Ground Level
Parking - Below-grade	\$6,990,000	\$36,773	\$30,000 Per Space - Below-grade	\$2,655,000	\$40,846	\$30,000 Per Space - Below-grade	\$2,400,000	\$36,923	\$30,000 Per Space - Below-grade
Shell Construction - Retail	\$1,665,000	\$8,759	\$150 Per SF - Retail	\$2,430,000	\$37,385	\$150 Per SF - Retail	\$1,372,500	\$21,115	\$150 Per SF - Retail
Shell Construction - Office	\$0	\$0	\$0 Per SF - Office	\$0	\$0	\$0 Per SF - Office	\$2,250,000	\$34,615	\$200 Per SF - Office (Star Building)
Shell Construction - Residential (Type I)	\$44,788,000	\$235,621	\$200 Per SF - Residential (Type I)	\$0	\$0	\$0 Per SF - Residential (Type I)	\$0	\$0	\$0 Per SF - Residential (Type I)
Shell Construction - Residential (Type V)	\$5,353,000	\$28,161	\$175 Per SF - Residential (Type V)	\$17,013,000	\$261,738	\$178 Per SF - Residential (Type V) (2)	\$16,167,000	\$248,723	\$175 Per SF - Residential (Type V)
Tenant Improvements - Retail	\$555,000	\$2,920	\$50 Per Net SF - Retail	\$810,000	\$12,462	\$50 Per Net SF - Retail	\$457,500	\$7,038	\$50 Per Net SF - Retail
Tenant Improvements - Office	\$0	\$0	\$0 Per Net SF - Office	\$0	\$0	\$0 Per Net SF - Office	\$347,000	\$5,338	\$50 Per Net SF - Office
Amenities/FF&E	\$665,000	\$3,500	Allowance	\$475,000	\$2,500	Allowance	\$163,000	\$2,500	Allowance
Contingency	<u>\$3,014,000</u>	<u>\$15,856</u>	5.0% of Directs	<u>\$1,182,000</u>	<u>\$18,185</u>	5.0% of Directs	<u>\$1,180,000</u>	<u>\$18,154</u>	5.0% of Directs
Subtotal Direct Costs	\$63,293,000	\$332,972	\$238 Per SF GBA	\$24,828,000	\$381,969	\$222 Per SF GBA	\$24,775,000	\$381,154	\$220 Per SF GBA
II. Indirect Costs									
Architecture & Engineering	\$3,798,000	\$19,981	6.0% of Directs	\$1,490,000	\$22,923	6.0% of Directs	\$1,487,000	\$22,877	6.0% of Directs
Permits & Fees - Commercial (1)	\$222,000	\$1,168	\$20 Per SF GBA - Commercial	\$324,000	\$4,985	\$20 Per SF GBA - Commercial	\$408,000	\$6,277	\$20 Per SF GBA - Commercial
Permits & Fees - Residential (1)	\$3,800,000	\$20,000	Allowance	\$1,300,000	\$20,000	Allowance	\$1,300,000	\$20,000	Allowance
Inclusionary Housing In-Lieu Fee (2)	\$1,268,000	\$6,671	\$4.98 Per SF GBA - Residential	\$476,000	\$7,323	\$4.98 Per SF GBA - Residential	\$460,000	\$7,077	\$4.98 Per SF GBA - Residential
Legal & Accounting	\$633,000	\$3,330	1.0% of Directs	\$248,000	\$3,815	1.0% of Directs	\$248,000	\$3,815	1.0% of Directs
Taxes & Insurance	\$633,000	\$3,330	1.0% of Directs	\$248,000	\$3,815	1.0% of Directs	\$248,000	\$3,815	1.0% of Directs
Developer Fee	\$2,532,000	\$13,320	4.0% of Directs	\$993,000	\$15,277	4.0% of Directs	\$991,000	\$15,246	4.0% of Directs
Marketing/Sales - Residential	\$1,864,000	\$1,500	2.0% of Value	\$633,000	\$9,738	2.0% of Value	\$697,000	\$10,723	2.0% of Value
Marketing/Lease-Up - Commercial	\$89,000	\$468	\$8 Per Net SF - Commercial	\$130,000	\$2,000	\$8 Per Net SF - Commercial	\$129,000	\$1,985	\$8 Per Net SF - Commercial
Contingency	<u>\$742,000</u>	<u>\$3,904</u>	5.0% of Indirects	<u>\$292,000</u>	<u>\$4,492</u>	5.0% of Indirects	<u>\$298,000</u>	<u>\$4,585</u>	5.0% of Indirects
Subtotal Indirect Costs	\$15,581,000	\$81,969	24.6% of Directs	\$6,134,000	\$94,369	24.7% of Directs	\$6,266,000	\$96,400	25.3% of Directs
III. Financing Costs									
Subtotal Financing Costs	<u>\$7,595,000</u>	<u>\$39,956</u>	12.0% of Directs	<u>\$2,979,000</u>	<u>\$45,831</u>	12.0% of Directs	<u>\$2,973,000</u>	<u>\$45,738</u>	12.0% of Directs
IV. Total Development Costs Or Say (Rounded)	\$86,469,000 \$86,469,000	\$454,897	\$326 Per SF GBA	\$33,941,000 \$33,941,000	\$522,169	\$304 Per SF GBA	\$34,014,000 \$34,014,000	\$523,292	\$302 Per SF GBA

(1) Estimated allowance; not verified by KMA.
(2) Assumes new residential construction costs of \$175 per SF GBA and \$200 per SF for adaptive reuse of Star Building (11,250 SF).

TABLE 3

NET OPERATING INCOME - COMMERCIAL SPACE
CEDAR AND KETTNER - DEVELOPMENT OPTIONS
COUNTY OF SAN DIEGO

	Project			Build Alternative #1			Build Alternative #2		
	Leasable SF	Rent/SF	Total Annual	Leasable SF	Rent/SF	Total Annual	Leasable SF	Rent/SF	Total Annual
I. Net Operating Income									
A. Gross Scheduled Income									
Leasable Retail Space	11,100 SF	\$3.50 /SF/Month/NNN	\$466,000	16,200 SF	\$3.50 /SF/Month/NNN	\$680,000	9,150 SF	\$3.50 /SF/Month/NNN	\$384,000
Leasable Office Space	0 SF	\$0.00 /SF/Month/FSG	\$0	0 SF	\$0.00 /SF/Month/FSG	\$0	6,930 SF	\$2.75 /SF/Month/FSG	\$229,000
Total Gross Scheduled Income (GSI)	11,100 SF	\$3.50 /SF	\$466,000	16,200 SF	\$3.50 /SF	\$680,000	16,080 SF	\$3.18 /SF	\$613,000
(Less) Vacancy		10.0% of GSI	(\$47,000)		10.0% of GSI	(\$68,000)		10.0% of GSI	(\$61,000)
B. Effective Gross Income			\$419,000			\$612,000			\$552,000
(Less) Unreimbursed Expenses - Retail		5.0% of EGI	(\$21,000)		5.0% of EGI	(\$31,000)		5.0% of EGI	(\$17,000)
(Less) Operating Expenses - Office		\$10.00 /SF/Year	\$0		\$0.00 /SF/Year	\$0		\$10.00 /SF/Year	(\$69,000)
C. Net Operating Income - Commercial			\$398,000			\$581,000			\$466,000
II. Capitalized Value of NOI - Commercial		7.5% Cap Rate	\$5,307,000		7.5% Cap Rate	\$7,747,000		8.0% Cap Rate	\$5,825,000
(Less) Cost of Sale @		3.0% of Value	(\$159,000)		3.0% of Value	(\$232,000)		3.0% of Value	(\$175,000)
(Less) Developer Profit @		10.0% of Value	(\$531,000)		10.0% of Value	(\$775,000)		10.0% of Value	(\$583,000)
III. Net Sales Proceeds			\$4,617,000			\$6,740,000			\$5,067,000

TABLE 4

GROSS SALES PROCEEDS - FOR-SALE RESIDENTIAL
CEDAR AND KETTNER - DEVELOPMENT OPTIONS
COUNTY OF SAN DIEGO

	Project					Build Alternative #1					Build Alternative #2				
	Average Unit Size	# of Units	Price/SF	Sales Price	Total Sales	Average Unit Size	# of Units	Price/SF	Sales Price	Total Sales	Average Unit Size	# of Units	Price/SF	Sales Price	Total Sales
I. Gross Sales Proceeds															
One-Bedroom (Type V)	0 SF	0	\$0	\$0	\$0	827 SF	23	\$525	\$434,000	\$9,982,000	866 SF	35	\$525	\$455,000	\$15,925,000
One-Bedroom (Type I)	792 SF	92	\$575	\$456,000	\$41,952,000	0 SF	0	\$0	\$0	\$0	0 SF	0	\$0	\$0	\$0
Two-Bedroom (Type V)	0 SF	0	\$0	\$0	\$0	930 SF	37	\$525	\$488,000	\$18,056,000	1,260 SF	30	\$500	\$630,000	\$18,900,000
Two-Bedroom (Type I)	1,222 SF	61	\$550	\$672,000	\$40,992,000	0 SF	0	\$0	\$0	\$0	0 SF	0	\$0	\$0	\$0
Three-Bedroom (Type V)	0 SF	0	\$0	\$0	\$0	1,380 SF	5	\$525	\$725,000	\$3,625,000	0 SF	0	\$0	\$0	\$0
Three-Bedroom (Type I)	<u>1,788</u> SF	<u>10</u>	<u>\$575</u>	<u>\$1,028,000</u>	<u>\$10,280,000</u>	<u>0</u> SF	<u>0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0</u> SF	<u>0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total Gross Sales Proceeds	1,007 SF	163	\$568	\$572,000	\$93,224,000	928 SF	65	\$525	\$487,000	\$31,663,000	1,048 SF	65	\$512	\$536,000	\$34,825,000
(Less) Cost of Sale @			3.0% of Value		(\$2,797,000)			3.0% of Value		(\$950,000)			3.0% of Value		(\$1,045,000)
(Less) Developer Profit @			12.0% of Value		<u>(\$11,187,000)</u>			12.0% of Value		<u>(\$3,800,000)</u>			12.0% of Value		<u>(\$4,179,000)</u>
II. Net Sales Proceeds					\$79,240,000					\$26,913,000					\$29,601,000

TABLE 5

**NET OPERATING INCOME - RENTAL RESIDENTIAL
CEDAR AND KETTNER - DEVELOPMENT OPTIONS
COUNTY OF SAN DIEGO**

	Project				
	<u>Average Unit Size</u>	<u># of Units</u>	<u>Rent/SF</u>	<u>Monthly Rent</u>	<u>Total Annual</u>
I. Gross Scheduled Income					
One-Bedroom (Type V)	800 SF	16	\$2.25	\$1,800	\$351,000
Two-Bedroom (Type V)	<u>1,200 SF</u>	<u>11</u>	<u>\$2.00</u>	<u>\$2,400</u>	<u>\$312,000</u>
Total/Average	960 SF	27	\$2.12	\$2,040	\$663,000
Add: Other Income			\$25 /Unit/Month		\$8,000
(Less) Vacancy @			5.0% of Income		<u>(\$33,000)</u>
Effective Gross Income (EGI)					\$638,000
II. Operating Expenses					
(Less) Operating Expenses			\$3,600 /Unit/Year		(\$98,000)
(Less) Property Taxes (1)			\$3,544 /Unit/Year		(\$96,000)
(Less) Replacement Reserves			<u>\$250 /Unit/Year</u>		<u>(\$7,000)</u>
Total Expenses			\$7,421 /Unit/Year 31.5% of EGI		(\$201,000)
III. Net Operating Income					\$437,000
IV. Capitalized Value of NOI - Residential			5.0% Cap Rate		\$8,740,000
(Less) Cost of Sale @			3.0% of Value		(\$262,000)
(Less) Developer Profit @			12.0% of Value		<u>(\$1,049,000)</u>
V. Net Sales Proceeds					\$7,429,000

(1) Based on capitalized income approach, assumes a 1.1% tax rate and 5.0% cap rate.

TABLE 6

**ESTIMATE OF RESIDUAL LAND VALUE
CEDAR AND KETTNER - DEVELOPMENT OPTIONS
COUNTY OF SAN DIEGO**

	Project (1)	Build Alternative #1 (2)	Build Alternative #2 (2)
I. Net Sales Proceeds			
Net Sales Proceeds - Commercial Space	\$4,617,000	\$6,740,000	\$5,067,000
Net Sales Proceeds - For-Sale Residential	\$79,240,000	\$26,913,000	\$29,601,000
Net Sales Proceeds - Rental Residential	<u>\$7,429,000</u>	<u>\$0</u>	<u>\$0</u>
II. Surpportable Investment	\$91,286,000	\$33,653,000	\$34,668,000
(Less) Development Costs	<u>(\$86,469,000)</u>	<u>(\$33,941,000)</u>	<u>(\$34,014,000)</u>
III. Residual Land Value	\$4,817,000	(\$288,000)	\$654,000
Per SF Site Area	\$92	(\$5)	\$12

(1) Project assumes that a portion of the site will be sold as a fee simple interest to a private developer to construct the private development.

(2) Build Alternatives #1 and #2 assume that the air rights will be sold to a developer to construct the private development and the County will continue to own the site.